



United States Department of Agriculture
Rural Development - Texas

Section 538 Guaranteed Rural Rental Housing Program (GRRHP) 20 Frequently Asked Questions

	Questions	Answers
1	What is the program purpose?	The purpose of the GRRHP is to increase the supply of affordable rural rental housing, through the use of loan guarantees that encourage partnerships between USDA Rural Development, private lenders, and public agencies.
2	What is the guarantee?	USDA Rural Development will issue a guarantee in the event of loss of up to 90 percent of the loan amount; lenders retain the remaining 10 percent of any loss.
3	What is the maximum and minimum loan?	There are no regulatory limits as to the maximum and minimum loan amount.
4	What is the loan term?	25 yr minimum, 40 yr maximum <u>or</u> 25 yr minimum with 40 year amortization.
5	What is the interest rate?	The interest rate is negotiated between borrower and lender.
6	Can this program be used for student housing, or special medical care facilities and institutional type homes?	No. These are Ineligible Uses of Loan Funds. See HB-1-3565 3.23 (B)
7	What is the loan to value?	90 percent or less of loans made to for-profit entities 97 percent or less of loans made to non-profit entities
8	What properties qualify?	Qualifying properties include new construction for multi-family housing units, the acquisition of existing structures with a minimum per unit rehabilitation expenditure of \$6,500 per unit. Direct Section 515 housing projects must need repairs and/or undergo revitalization of a minimum of \$6,500 per unit. To be eligible a project must have five (5) or more living units.
9	What are the eligible costs?	All hard costs. Soft costs- professional services, bond fees, developer fees, land acquisition and development, financing costs.
10	Can the guarantee be for construction <u>and</u> permanent?	USDA Rural Development can guarantee the “permanent” portion or both the “construction and permanent” portions of a construction/permanent loan.
11	What is an eligible borrower?	Individual partnerships, non-profit or for-profit corporations, State and local agencies, Indian tribes
12	What about the location?	The project must be located in an eligible rural area. Developers should stay away from flood plains. http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do
13	What about the income of residents?	Units are to be available only to households whose incomes, at the time of initial occupancy, do not exceed 115 percent of the area median income. After initial occupancy, a tenant’s income may exceed this limit.
14	What about the rents?	The monthly rent for any individual housing unit, <u>including</u> any tenant-paid utilities, must not exceed an amount equal to 1/12th of 30 percent of 115 percent of area median annual income, adjusted for family size; and on an annual basis, the average monthly rent for a project, taking into account all individual unit rents, including any tenant-paid utilities, must not exceed 1/12th of 30 percent of 100 percent of area median annual income, adjusted for family size.
15	What is the debt service ratio?	The Agency requires lenders to use debt service coverage of at least 1.15, unless the lender can justify a lower ratio and receive Agency approval. Debt Service Coverage is equal to the Annual Net Operating Income divided by Annual Principal & Interest Mortgage Payment.
16	Where can I get an approved lenders list?	Please contact the USDA Rural Development State Office
17	How long does it take to get an answer from USDA Rural Development?	The review process including the Environmental Assessment generally takes 2 1/2 to 3 months, upon receipt of a complete loan package from an approved lender.
18	How do I find out more about the application process	There is an annual Notice of Funding Availability (NOFA) published in the Federal Register each year. http://www.gpoaccess.gov/fr/index.html
19	Can you refinance a USDA RD Section 515 loan with a 538 loan?	No. It is not an eligible uses of loan proceeds in 7 CFR Part 3565, Sec. 3565.205.
20	Who services the loan when there is both a USDA RD Section 515 and a Section 538 loan?	Section 538 loans will be serviced by the lender. USDA Rural Development will service the Section 515 loan in accordance with Section 515 regulations.

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To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).



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